

CRS Report for Congress

U.S. International Trade: Trends and Forecasts

Updated January 4, 2008

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**Prepared for Members and
Committees of Congress**

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 04 JAN 2008		2. REPORT TYPE		3. DATES COVERED 00-00-2008 to 00-00-2008	
4. TITLE AND SUBTITLE U.S. International Trade: Trends and Forecasts				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Congressional Research Service, The Library of Congress, 101 Independence Ave, SE, Washington, DC, 20540-7500				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 32	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

U.S. International Trade: Trends and Forecasts

Summary

This report provides an overview of the current status, trends, and forecasts for U.S. international trade. The purpose of this report is to provide current data and brief explanations for the various types of trade flows, particularly U.S. exports, along with a short discussion of particular trends and points of contention related to trade policy.

The United States is now running record deficits in its trade with other nations. In 2006 the U.S. merchandise trade deficit reached \$838 billion on a balance-of-payments (BoP) basis and \$817 billion on a Census basis. A surplus in services trade of \$80 billion resulted in a deficit of \$759 billion on goods and services for the year — up \$44 billion or 6.2% from the \$714 billion deficit in 2005. While U.S. exports are highly competitive in world markets, these sales abroad are overshadowed by the huge demand by Americans for imported products. In 2006, U.S. exports of goods and services totaled \$1,446 billion, while U.S. imports reached \$2,204 billion. Since 1976, the United States has incurred continual merchandise trade deficits with annual amounts fluctuating around an upward trend.

Trade deficits are a concern for Congress because they may generate trade friction and pressures for the government to do more to open foreign markets, to shield U.S. producers from foreign competition, or to assist U.S. industries to become more competitive. As the deficit increases, the risk also rises of a precipitous drop in the value of the dollar and disruption in financial markets. Compared to a Federal Reserve index of currencies weighted by importance to U.S. trade, the dollar has lost a third of its value since 2002. In 2007, the dollar has fallen against major currencies such as the euro, yen, British pound, Australian dollar, and Canadian dollar.

Overall U.S. trade deficits reflect excess spending (a shortage of savings) in the domestic economy and a reliance on capital imports to finance that shortfall. Capital inflows serve to offset the outflow of dollars used to pay for imports. Movements in the exchange rate help to balance trade. The rising trade deficit (when not matched by capital inflows) places downward pressure on the value of the dollar which, in turn, helps to shrink the deficit by making U.S. exports cheaper and imports more expensive. Central banks in countries such as China, however, have intervened in foreign exchange markets to keep the value of their currencies stable.

The broadest measure of U.S. international economic transactions is the balance on current account. In addition to merchandise trade, it includes trade in services and unilateral transfers. In 2006, the deficit on current account rose to a revised \$811.5 billion from a revised \$754.8 billion in 2005. In trade in advanced technology products, the U.S. balance improved slightly from a deficit of \$44 billion in 2005 to a deficit of \$38 billion in 2006. In trade in motor vehicles and parts, the \$145 billion U.S. deficit in 2006 was mainly with Canada, Japan, Mexico, Germany, United Kingdom, and South Korea. In crude oil, major sources of the \$225 billion in imports were Canada, Mexico, Saudi Arabia, Venezuela, and Nigeria. This report will be updated periodically.

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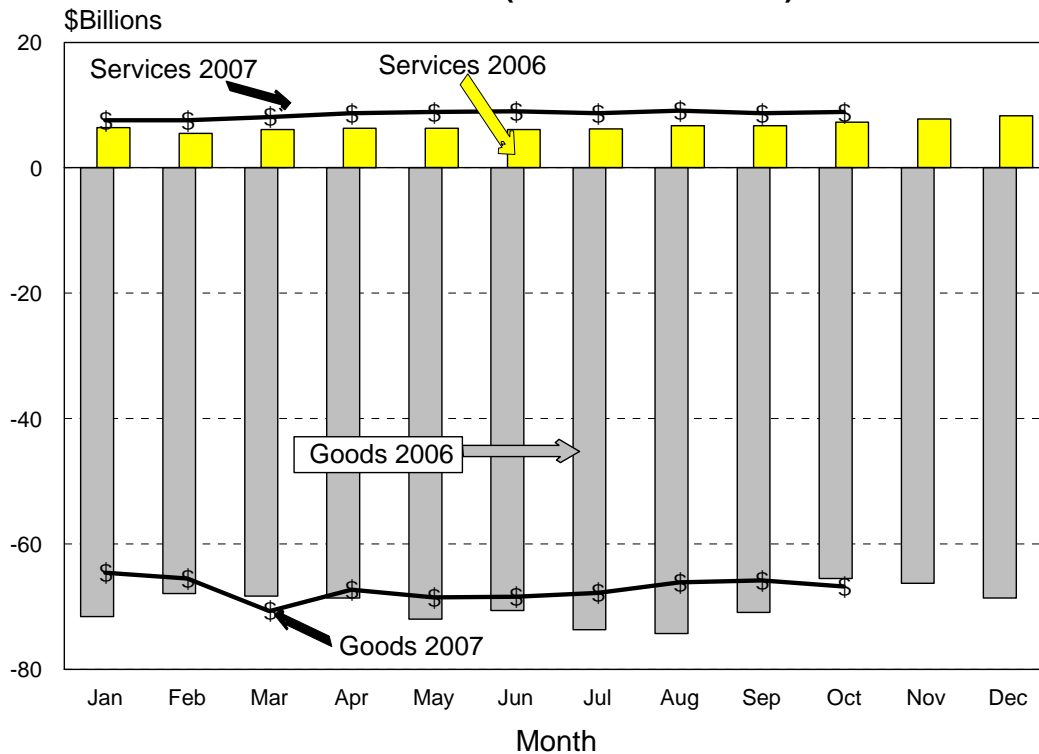
U.S. International Trade: Trends and Forecasts

Most Recent Developments

In 2006, the **trade deficit in goods** reached a record \$838.3 billion (balance of payments [BoP] basis), up \$51.1 billion from \$787.1 billion in 2005. The 2006 deficit on merchandise trade with China was \$232.6 billion (Census basis), with the European Union (EU-27) was \$117.2 billion, with Japan was \$88.6 billion, with Canada was \$71.8 billion, with Mexico was \$64.3 billion, and with the Asian Newly Industrialized Countries (Hong Kong, South Korea, Singapore, and Taiwan) was \$11.8 billion. **Imports of goods** of \$1,861.4 billion increased by \$179.6 billion (10.7%) over 2005. Increases in imports by sector were: crude oil up \$40.9 billion, capital goods except automotive up \$38.9 billion, automotive vehicles and parts up \$17.2 billion, and consumer goods up \$35.4 billion. **Exports of goods** of \$1,023.1 billion rose by \$128.5 billion (14%), particularly of industrial supplies (up \$43 billion), capital goods except automotive (up \$51.6 billion), automotive vehicles and parts (up \$8.6 billion), and consumer goods (up \$13.9 billion). Exports grew faster than imports, but this was not enough to narrow the trade deficit.

Figure 1 shows the latest monthly balance data for both goods trade and services trade. The services balance remains positive for the entire period. The goods trade balance fluctuates each month. For January and February 2007 the deficit on goods trade was less in 2007 than the corresponding months in 2006. This reversal of the previous trend of steadily increasing trade deficits began in August, 2006. In March 2007, however, the deficit level exceeded that in March 2006, but again receded in April through September 2007. The October 2007 deficit in goods exceeded the deficit for a year earlier. In goods and services, total imports in October 2007 of \$199.5 billion were the highest in the year and in U.S. history. Also in October 2007, total exports of goods and services of \$141.7 billion were the highest in the year and U.S. history. This produced a deficit on goods and services for that month of \$57.8 billion, below the record high set in August 2006 of \$67.6 billion. For July through October 2007, the trade deficit remained below the \$60 billion monthly level. Although U.S. imports increased by 9.2% from September to October 2007, exports increased by an even greater amount of 13.7%. At \$141.7 billion, U.S. good and services exports for October set a record high for 2007.

Figure 1. Monthly U.S. Balances of Trade in Goods and Services, 2006 and 2007 (in Current Dollars)



Source: CRS with Data from the U.S. Department of Commerce

In services, as shown in **Figure 1**, the U.S. surplus in 2006 increased by about \$2 billion from the beginning to the end of the year, reaching \$8.3 billion in December. The trade surplus in services for January through October of 2007 was greater than over the corresponding months in 2006. Service imports reached \$31.7 billion for October 2007 and exports totaled \$40.6 billion, yielding a services surplus of \$8.9 billion.¹

For 2006, the trade deficit on goods and services reached a record \$758.5 billion or 5.7% of U.S. gross domestic product (GDP, \$13.2 trillion in 2005), up slightly from 2005. U.S. consumer demand remains strong and continues to pull in imports at a rapid pace. For 2007, it appears that the trade deficit will decline slightly from that in 2006. Preliminary statistics for 2007 will be released on February 14, 2008.

The U.S. Deficit in International Trade

International trade in goods and services along with flows of financial capital affect virtually every person living in the United States. Whether buying imported clothes, gasoline, computers or cars, or working in an industry that competes with

¹ Monthly trade data are available from the U.S. Bureau of Economic Analysis at [<http://www.bea.gov/bea/di/home/trade.htm>].

imports, or sells products abroad, the influence of international trade on economic activity is ubiquitous.

The United States is now running record deficits in its trade with other nations. In 2006 the U.S. merchandise trade deficit reached \$817.3 billion on a Census basis and \$838.3 billion on a balance-of-payments basis (BoP). A surplus in services trade of \$79.7 billion produced a deficit of \$758.5 billion on goods and services for the year — up \$146.4 billion or 23.9% from the \$612.1 billion deficit in 2004. While U.S. exports are highly competitive in world markets, U.S. sales abroad are overshadowed by the huge demand by Americans for imported products. In 2006, U.S. exports of goods and services totaled \$1.446 trillion, while U.S. imports reached \$2.204 trillion (BoP). Since 1976, the United States has incurred continual merchandise trade deficits with annual amounts fluctuating around an upward trend.

For the Congress, the trade deficit and other aspects of international trade enter into public policy considerations through many portals. At the macroeconomic level, trade deficits are a concern because they affect U.S. economic growth, interest rates, labor, and the debt load of the economy. As the trade deficit rises relative to the total economy, the risk increases that the dollar will weaken, raise prices, disrupt financial markets, and reduce the economic well being of the population. On the strategic level, trade ties often lead to a deepening of bilateral relations with other nations that can develop into formal free trade agreements or political and security arrangements. Trade also can be used as a tool to accomplish strategic objectives — particularly through providing preferential trading arrangements or by imposing trade sanctions.

On the microeconomic side, imports of specific products can generate trade friction and pressures from constituent interests for the government to shield U.S. producers from foreign competition, provide adjustment assistance, open foreign markets, or assist U.S. industries to become more competitive.

This report provides an overview of the current status, trends, and forecasts for U.S. import and export flows as well as certain balances. The purpose of this report is to provide current data and brief explanations for the various types of trade flows along with a brief discussion of trends that may require attention or point to the need for policy changes. The use of trade policy as an economic or strategic tool is beyond the scope of this report but can be found in various other CRS reports.² Further detail on trade in specific commodities, with particular countries or regions, or for different

² See, for example, CRS Report RL31832, *The Export Administration Act: Evolution, Provisions, and Debate*, by Ian F. Fergusson; CRS Report RL33463, *Trade Negotiations During the 110th Congress*, by Ian F. Fergusson; CRS Report RL31356, *Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy*, by William H. Cooper; CRS Report RL32371, *Trade Remedies: A Primer*, by Vivian C. Jones; CRS Report RL32493, *The North Korean Economy: Background and Policy Analysis*, by Dick K. Nanto and Emma Chanlett-Avery; or CRS Report RL33653, *East Asian Regional Architecture: New Economic and Security Arrangements and U.S. Policy*, by Dick K. Nanto.

time periods, can be obtained from the Department of Commerce,³ U.S. International Trade Commission,⁴ or by contacting the authors of this report.

Savings Shortfalls and the Trade Deficit

Overall U.S. trade deficits reflect a shortage of savings in the domestic economy and a reliance on capital imports to finance that shortfall. A savings shortfall is the analogue of excessive spending that is financed by borrowing. Households borrow for consumption; businesses borrow to invest; and the government borrows to cover its budget deficit. At the international transaction level, the savings shortfall is manifest when the United States imports capital to pay for its excess of imports (trade deficit).

Whether this foreign borrowing is beneficial for the U.S. economy depends on how the imports of capital are used. If they are used to finance investments that generate a future return at a sufficiently high rate (they raise future output and productivity), then they may increase the well being of current and future generations. However, if the imports are used only for current consumption, the net effect of the borrowing will be to shift the burden of repayment to future generations without a corresponding benefit to them.

Implications of the Trade Deficit

U.S. trade balances are macroeconomic variables that may or may not indicate underlying problems with the competitiveness of particular industries or what some refer to as the competitiveness of a nation. The reason is that overall trade flows are determined, within the framework of institutional barriers to trade and the activities of individual industries, primarily by macroeconomic factors such as rates of growth, savings and investment behavior (including government budget deficits/surpluses), international capital flows, and exchange rates.⁵

Increases in trade deficits may diminish economic growth, since net exports (exports minus imports) are a component of gross domestic product. In the late 1980s and early 1990s, export growth was an important element in overall U.S. economic growth. In 2006, merchandise exports accounted for about 7.7% of GDP, compared with 5.9% in 1990. Recently, however, rising trade deficits have reduced total domestic demand in the economy, but the weakness in the trade sector has been offset by strong consumer, business, and government demand.

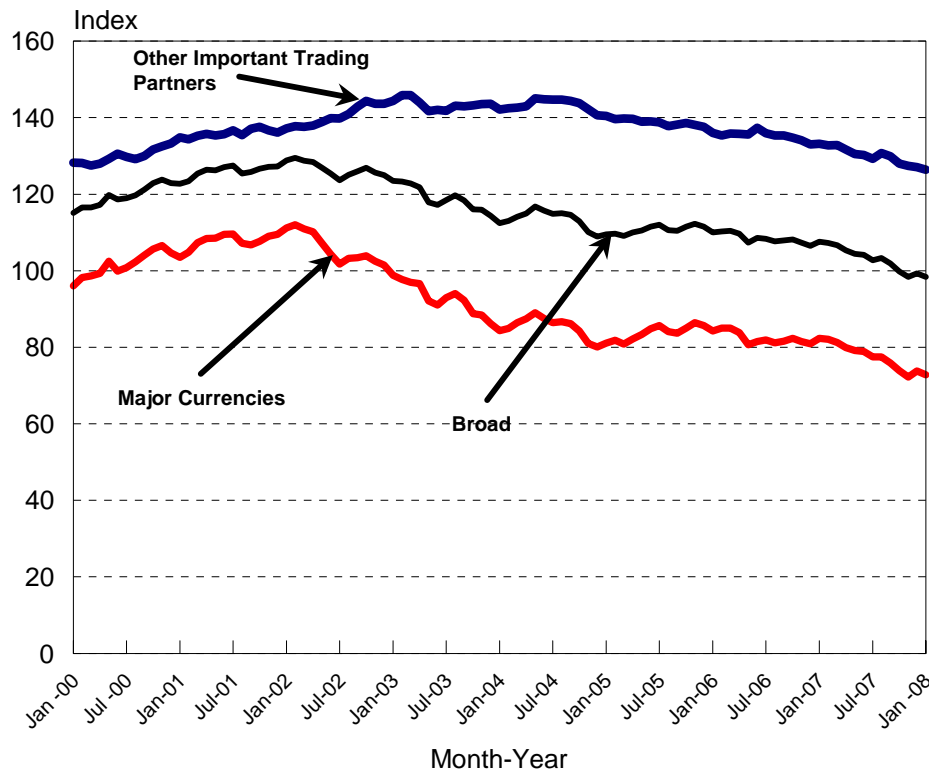
³ Commerce Department data are available at [<http://www.bea.gov/>].

⁴ U.S. International Trade Commission data are available at [<http://dataweb.usitc.gov/>].

⁵ For further information on trade deficits and the macroeconomy, see CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cures*, by Craig K. Elwell and CRS Report RL33186, *Is the U.S. Current Account Deficit Sustainable?*, by Marc Labonte.

Many economists fear that the rising U.S. trade and current account⁶ deficits could lead to a large drop in the value of the U.S. dollar. The current account deficit now exceeds 6% of GDP and is placing downward pressure on the dollar. A weakened dollar boosts exports by making them cheaper, narrowing the U.S. trade deficit. Compared to a Federal Reserve index of major currencies weighted by importance to U.S. trade, the dollar has lost a third of its value since 2002 (see **Figure 2**). The dollar has fallen against the euro, yen, British pound, Australian dollar, and Canadian dollar. In fact, the U.S. dollar fell to parity with the Canadian loonie in September 2007 for the first time in thirty years, and remains roughly in that range. The dollar's decline was exacerbated when the Federal Reserve lowered interest rates on September 18, 2007.

Figure 2. Month-End Trade-Weighted U.S. Dollar Against Broad, Major Currencies, and Other Important Trading Partner Indices, January 2000-January 2008



Source: Federal Reserve Bank of St. Louis, [<http://www.federalreserve.gov/releases/h10/Summary/>].

Notes: Broad Index (January 1997 = 100): Euro Area, Canada, Japan, Mexico, China, United Kingdom, Taiwan, Korea, Singapore, Hong Kong, Malaysia, Brazil, Switzerland, Thailand, Philippines, Australia, Indonesia, India, Israel, Saudi Arabia, Russia, Sweden, Argentina, Venezuela, Chile and Colombia.

Major Currencies Index (January 1993 = 100): Euro Area, Canada, Japan, United Kingdom, Switzerland, Australia, and Sweden.

Other Important Trade Partners Index (January 1997 = 100): Mexico, China, Taiwan, Korea, Singapore, Hong Kong, Malaysia, Brazil, Thailand, Philippines, Indonesia, India, Israel, Saudi Arabia, Russia, Argentina, Venezuela, Chile and Colombia.

⁶ U.S. trade in goods and services plus net flows of investment income and remittances.

Although a weakened dollar helps to reduce U.S. trade imbalances, it also may reduce the dollar's attractiveness to foreign investors. If foreign investors stop offsetting the deficit by buying dollar-denominated assets, the value of the dollar could drop — possibly precipitously. In that case, U.S. interest rates would have to rise to attract more foreign investment; financial markets could be disrupted; and inflationary pressures could increase. In the International Monetary Fund's May 2006 consultation with the United States, for example, its directors reiterated their long-standing concerns about the large U.S. current account deficit. They stated that "there is broad agreement that the large U.S. current account deficit ... cannot be sustained indefinitely. Although a gradual adjustment is the most likely outcome, delaying progress increases the risk of fanning protectionist sentiment or disorderly foreign exchange market conditions."⁷

Currently, foreign investment in dollar assets along with purchases of securities by central banks of countries, such as China and Japan, have been sufficient to keep the value of the dollar from falling too far. These central banks have intervened in currency markets to keep their exchange rates relatively stable with respect to the dollar, although Japan claims not to have intervened since spring of 2004. This intervention adds to the foreign currency reserves held by these countries. Japan's central bank held \$946 billion in foreign currency reserves (end of November 2007),⁸ and the Bank of China held \$1,434 billion (end of September 2007).⁹ In U.S. Treasury securities, as of October 2007, Japan held \$592 billion and China \$388 billion.¹⁰ On July 21, 2005, China announced a 2.1% revaluation of its currency, but the value of the renminbi has appreciated only a few more percentage points since then (indicating that China may still be intervening in currency markets).¹¹

A recent development in foreign country holdings of dollars and other reserve currencies is that some are turning toward creating sovereign wealth funds. These are funds owned by governments that are invested in stocks, bonds, property, and other financial instruments denominated in dollars, euros, or other hard currency. For China, Japan, South Korea, Russia, and oil-exporting nations, the source of capital for these funds is coming from governmental holdings of foreign exchange. For China and Japan, for example, foreign exchange reserves have traditionally been invested by their respective central banks primarily in low-yielding but low-risk

⁷ IMF, 2005 Article IV Consultation with the United States of America. Concluding Statement of the IMF Mission. May 31, 2006.

⁸ Statistics on Japanese international reserves are released on a monthly basis by the Japanese Ministry of Finance and available at [<https://www.mof.go.jp/english/gaijun/e1911.htm>].

⁹ Statistics on Chinese international reserves are available from the Chinability website, a non-profit website that provides Chinese economic and business data and analysis, at [<http://www.chinability.com/>].

¹⁰ Statistics on foreign holdings of U.S. Treasury securities are available at [<http://www.treasury.gov/tic/mfh.txt>]. For further information, see CRS Report RS22331, *Foreign Holdings of Federal Debt*, by Justin Murray and Marc Labonte.

¹¹ For further information, see CRS Report RL32165, *China's Currency: Economic Issues and Options for U.S. Trade Policy*, by Wayne M. Morrison and Marc Labonte.

government bonds, i.e., U.S. Treasury securities. The purpose of sovereign wealth funds is to diversify investments and to earn a higher rate of return. China, for example, is creating a fund of more than \$200 billion that already has bought a 10% (\$3 billion) share (non-voting) of the initial public offering of the Blackstone Group, a U.S. private equity group. Morgan Stanley research estimates that such sovereign wealth funds could hold up to \$12 trillion by 2015.¹² Depending on how these funds are managed and what leverage they acquire, they could affect U.S. interest rates (foreign purchases of U.S. Treasury securities tend to reduce U.S. interest rates), corporate activities (if funds buy significant voting shares of companies), and foreign access to technology and raw materials. The U.S. trade deficit provides some of the foreign exchange that goes to finance these sovereign wealth funds.

How long can the United States keep running trade deficits? U.S. deficits in trade can continue for as long as foreign investors are willing to buy and hold U.S. assets, particularly government securities and other financial assets.¹³ Their willingness depends on a complicated array of factors including the perception of the United States as a safe haven for capital, relative rates of return on investments, interest rates on U.S. financial assets, actions by foreign central banks, and the savings and investment decisions of businesses, governments, and households. The policy levers that influence these factors that affect the trade deficit are held by the Federal Reserve¹⁴ (interest rates) as well as both Congress and the Administration (government budget deficits and trade policy), and their counterpart institutions abroad.

In the 110th Congress, legislation directed at the trade deficit is taking several strategies. Some address trade barriers by particular countries, particularly China. Others are aimed at preventing manipulation of exchange rates or at imposing import duties to compensate for the arguably undervalued Chinese currency.¹⁵ Other bills seek to find domestic substitutes for imported oil, or require the President or a policy group to take certain actions if the trade deficit exceeded a threshold amount (for instance, a bilateral trade deficit of \$10 billion or 2% of GDP). Legislation is tracked in other CRS reports dealing with trade.

¹² Morgan Stanley, *Currencies, How Big Could Sovereign Wealth Funds Be by 2015?* Morgan Stanley Research, May 3, 2007.

¹³ See Mann, Catherine L. *Is the U.S. Trade Deficit Sustainable?* Washington, Institute for International Economics, 1999. 224 p. See also: CRS Report RL33274, *Financing the U.S. Trade Deficit*, by James K. Jackson. CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cures*, by Craig K. Elwell.

¹⁴ For details, see CRS Report RS20826, *Structure and Functions of The Federal Reserve System*, by Pauline Smale.

¹⁵ For legislation related to trade with China and the Chinese currency, see CRS Report RL33536, *China-U.S. Trade Issues*, by Wayne M. Morrison.

Types of Trade Data

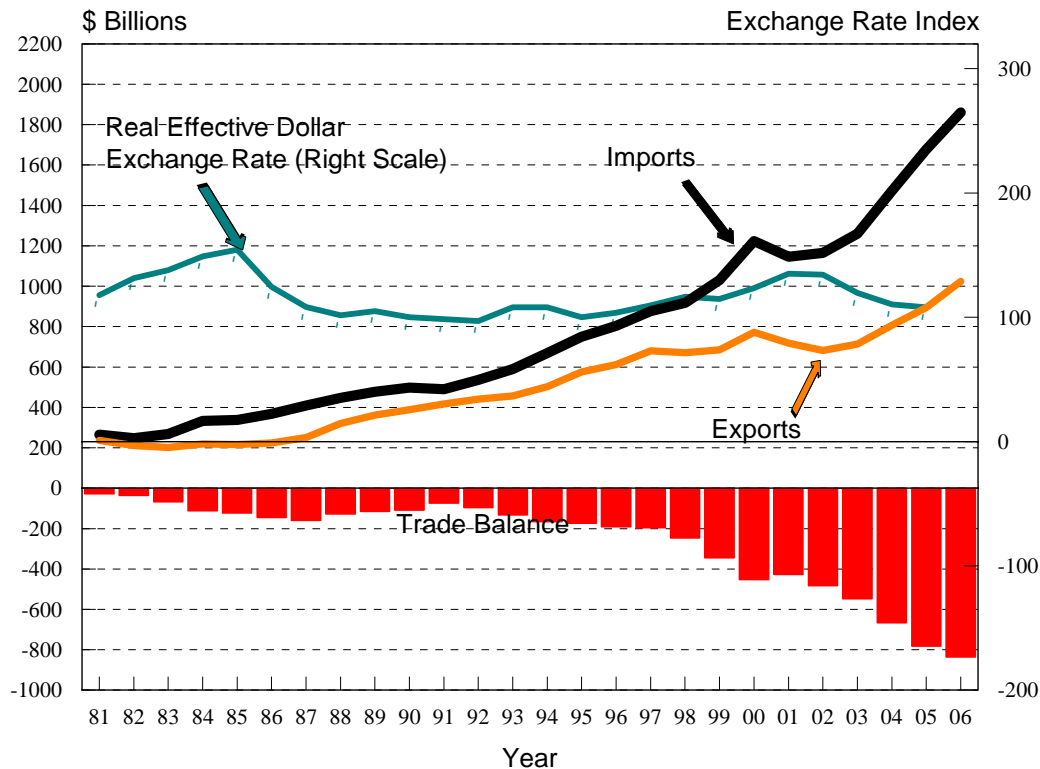
The U.S. government compiles trade data in four different ways. The data on goods trade are first compiled on a Census basis. Bilateral and sectoral data are reported only on a Census basis. The Census numbers are then adjusted and reported monthly on a balance of payments (BoP) basis that includes adjustments for valuation, coverage, and timing and excludes military transactions. The data are finally reported in terms of national income and product accounts (NIPA). The NIPA data also can be further adjusted to include correcting for inflation to gauge movement in trade volumes as distinct from trade values. Conceptually, this procedure is analogous to adjusting macroeconomic data from nominal to real values.

The Census Bureau also reports imports on a c.i.f. (cost, insurance, and freight) basis which includes the value of insurance, international shipping, and other charges incurred in bringing merchandise to U.S. ports of entry. The customs (or f.a.s. — free alongside ship) data do not include these supplementary costs. U.S. import data are reported on a customs basis with insurance and freight charges counted in U.S. services trade. Other countries, however, commonly report merchandise import figures that include insurance and freight charges. This tends to overstate their imports and understate their trade surpluses with the United States.

U.S. Merchandise Trade Balance

The merchandise (goods) trade balance is the most widely known and frequently used indicator of U.S. international economic activity (see **Figure 3**). In 2006, total U.S. merchandise trade amounted to \$2,884 billion, with exports of \$1,023 billion and imports of \$1,861 billion (BoP basis). The U.S. merchandise trade deficit rose 6.5% in 2006 to \$838 billion following a 17.6% rise in 2005 and a 22% rise in 2004. The rate of increase in the deficit, therefore, is beginning to taper off.

Figure 3. U.S. Merchandise Exports, Imports, Trade Balance, and Real Effective Dollar Exchange Rate Index, 1982-2006



Sources: U.S. Department of Commerce; IMF. **Note:** Exchange Rate, 1995= 100.

U.S. merchandise exports (as shown in **Table 1** and **Figure 4**), decreased in 2001 and 2002 in response to the global slowdown, but generally have been increasing each year. As shown in **Figure 4**, the growth of imports has also been steady, although they too fell by 4.4% in 2001 before recovering in 2002. In 2003, import growth was nearly double export growth, although in 2004, export growth almost caught up with that of imports, and in 2005, the rate of increase for both dropped slightly (11% for exports and 14% for imports). In 2006, exports grew by 14%, while imports grew by 11%. Exports grew faster than imports, but the trade deficit still increased. This is because U.S. imports are about 82% greater than U.S. exports, so exports must grow 82% faster than imports just for the deficit to remain constant.

Table 1. U.S. Exports, Imports, and Merchandise Trade Balances, 1982-2006
(billions of U.S. dollars)

Year	Census basis			Balance of payments basis		
	Exports (f.a.s. ^a)	Imports (customs ^b)	Trade Balance	Exports (f.a.s. ^a)	Imports (customs ^b)	Trade Balance
1982	212.3	243.9	-31.6	211.2	247.6	-36.4
1983	201.7	261.7	-60.0	201.8	268.9	-67.1
1984	218.7	330.5	-111.8	219.9	332.4	-112.5
1985	212.6	336.4	-123.8	215.9	338.1	-122.2
1986	226.4	365.7	-139.3	223.3	368.4	-145.1
1987	253.9	406.3	-152.4	250.2	409.8	-159.6
1988	323.3	441.9	-118.6	320.2	447.2	-127.0
1989	362.9	473.4	-110.5	359.9	477.7	-117.8
1990	392.9	495.2	-102.3	387.4	498.4	-111.0
1991	421.8	487.1	-65.3	414.1	491.0	-76.9
1992	448.2	532.6	-84.4	439.6	536.5	-96.9
1993	464.8	580.5	-115.7	456.9	589.4	-132.5
1994	512.6	663.2	-150.6	502.9	668.7	-165.8
1995	584.7	743.5	-158.8	575.2	749.4	-174.2
1996	625.1	795.3	-170.2	612.1	803.1	-191.0
1997	689.2	869.7	-180.5	678.4	876.5	-198.1
1998	682.1	911.9	-229.8	670.4	917.1	-246.7
1999	695.8	1,024.6	-328.8	684.0	1,030.0	-346.0
2000	781.9	1,218.0	-436.1	772.0	1,224.4	-452.4
2001	730.9	1,142.3	-411.4	718.7	1,145.9	-427.2
2002	693.5	1,163.6	-470.1	681.8	1,164.7	-482.9
2003	724.8	1,257.1	-532.3	713.1	1,260.7	-547.6
2004	818.8	1,469.7	-650.9	807.5	1,477.1	-669.6
2005	906.0	1,673.5	-767.5	894.6	1,681.8	-787.2
2006	1,036.6	1,853.9	-817.3	1,023.1	1,861.4	-838.3

Source: U.S. Department of Commerce, Bureau of Economic Analysis, U.S. International Transactions Accounts Data.

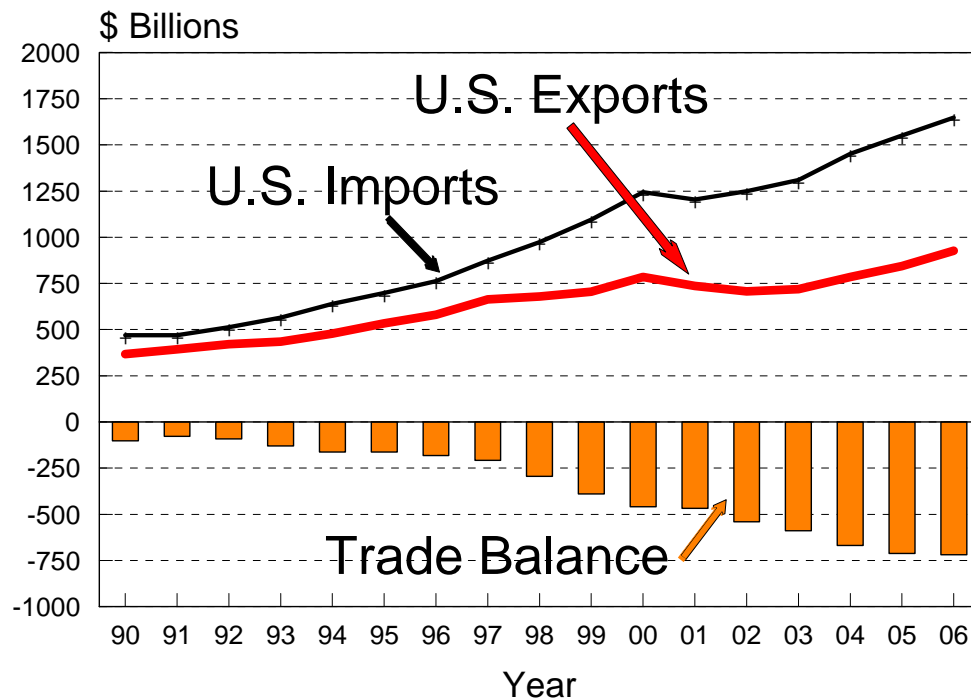
Note: Goods on a Census basis are adjusted to a BoP basis to include changes in ownership that occur without goods passing into or out of the customs territory of the United States, to eliminate duplication, and to value transactions according to a standard definition. Export adjustments include counting military sales as services not goods, adding private gift parcels, and foreign official gold sales from U.S. private dealers. Import adjustments include adding in inland freight in Canada and foreign official gold sales to U.S. private dealers, and subtracting imports by U.S. military agencies.

- a. Exports are valued on an f.a.s. basis, which refers to the free alongside ship value at the port of export and generally include inland freight, insurance, and other charges incurred in placing the goods alongside the carrier at the port of exportation.
- b. Imports are valued as reported by the U.S. Customs Service, known as Customs basis, and exclude import duties, the cost of freight, insurance, and other charges incurred in bringing merchandise to the United States.

Merchandise Trade Balance in Volume Terms

Like other economic variables, exports and imports, reported in terms of their values, can change merely because prices change. Trade data, therefore, can be adjusted for inflation by dividing by a chained price index (chained price indexes are weighted by two-year averages) to generate real or volume data (some trade commodities actually are reported in volume terms [e.g., tons of wheat]). The real data provide a more accurate picture of how the underlying flows of merchandise are changing. As with the nominal trade deficit, the real deficit continues to widen.

Figure 4. Real U.S. Imports, Exports, and Trade Balance of Goods (chained 2000 dollars), 1990-2006



Source: CRS with data from U.S. Bureau of Economic Analysis.

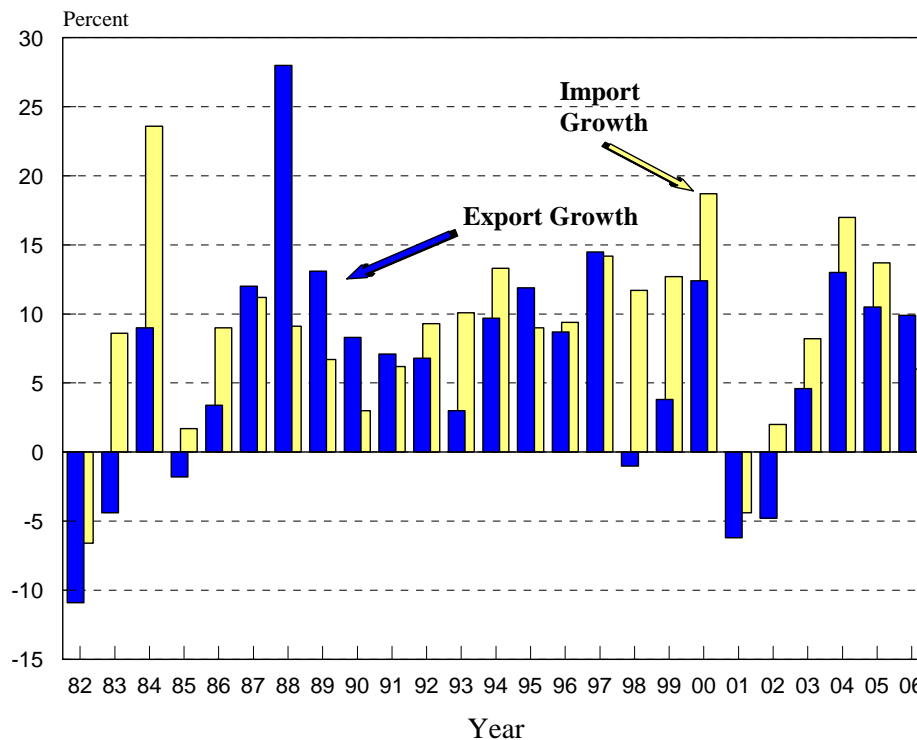
As shown in **Table 2** and **Figure 5**, the constant-dollar value, or physical volume, of merchandise exports increased by 9.9% in 2006, up from 7.5% in 2005 and 9.0% in 2004. The physical volume of imports rose by 6.0% in 2006, down from 6.6% in 2005 and 11.3% in 2004, but up from 4.9% in 2003. Because the growth of merchandise imports is higher than the growth of exports and because imports exceed exports by more than 80% on a physical volume basis, exports would have to grow more than 80% faster than imports just for the U.S. trade deficit in terms of volume to remain constant. In 2005 and 2006, export growth actually exceeded import growth, but the deficit still increased. In recent years, the deficit in volume terms has varied relative to the deficit in value terms partly because of fluctuations in oil import prices (when oil prices rise, the deficit in value rises relative to that in volume terms).

Table 2. U.S. Merchandise Trade in Volume Terms, 2001-2006
(billions of chained 2000 dollars)

Year	Exports	Export Growth	Imports	Import Growth	Real Trade Balance
2001	736.3	-6.1	1,204.1	-3.2	-467.8
2002	707.0	-4.0	1,248.2	3.7	-541.2
2003	719.8	1.8	1,309.3	4.9	-589.5
2004	784.4	9.0	1,457.0	11.3	-672.6
2005	843.5	7.5	1,553.6	6.6	-710.1
2006	927.4	9.9	1,646.9	6.0	-719.5

Source: CRS calculations from Bureau of Economic Analysis, National Income and Products Accounts data, Table 4.2.6, [<http://www.bea.gov/>].

Figure 5. Annual Growth in U.S. Merchandise Exports and Imports, 1982-2006

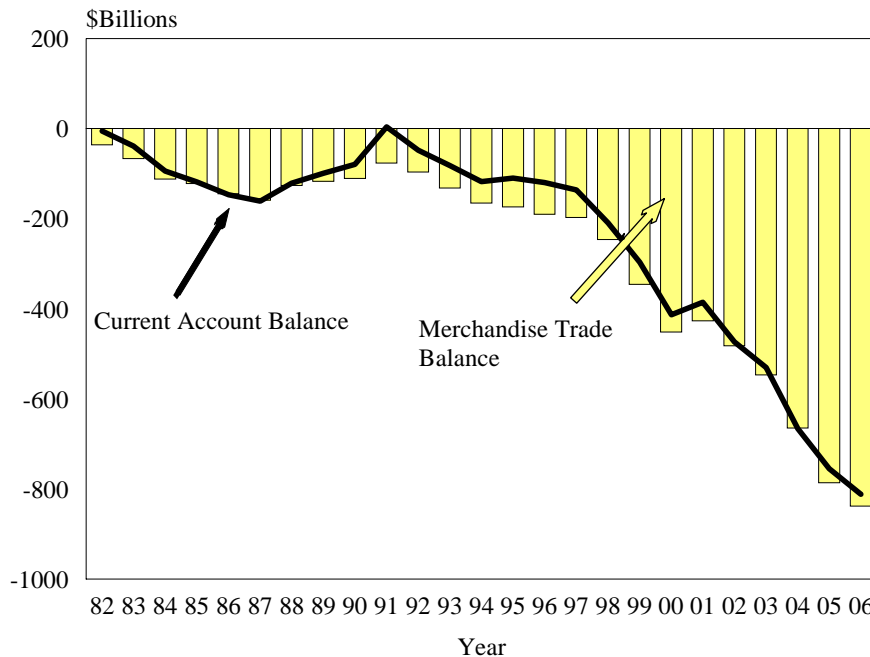


Source: Underlying data from U.S. Department of Commerce.

Current Account Balance

The current account provides a broader measure of U.S. trade because it includes services, investment income, and unilateral transfers in addition to merchandise trade. (See **Figure 6**.) The balance on services includes travel, transportation, fees and royalties, insurance payments, and other government and private services. The balance on investment income includes income received on U.S. assets abroad minus income paid on foreign assets in the United States. Unilateral transfers are international transfers of funds for which there is no *quid pro quo*. These include private gifts, remittances, pension payments, and government grants (foreign aid). Data on the current account lag those on trade by several months.

Figure 6. U.S. Current Account and Merchandise Trade Balances, 1982-2006



Source: CRS with data from U.S. Bureau of Economic Analysis.

Table 3 summarizes the components of the U.S. current account. In 2006, the U.S. deficit on current account increased to \$811.5 billion from \$754.8 billion in 2005. As a share of U.S. GDP, this deficit rose to 6.2% in 2006. This is considerably above the caution level used by the International Monetary Fund of 5%. Since the dollar is used as an international reserve currency, however, the United States can run trade deficits without the same downward pressure on the value of the dollar as other nations. Historically, the current account deficit fell from a then record-high \$160.7 billion in 1987 to \$79.0 billion in 1990, and switched to a \$3.7 billion surplus in 1991 (primarily because of payments to fund the Gulf War by Japan and other nations). However, since a slight decline in 1995, the current account deficit has been increasing significantly except for a slight dip in 2001 because of the U.S. recession.

Table 3. U.S. Current Account Balances: 1985-2006
(billions of U.S. dollars)

Calendar Year	Merchandise Trade Balance ^a	Services Balance ^b	Investment Income Balance ^c	Net Unilateral Transfers ^d	Current Account Balance ^e
1985	-122.2	0.3	25.7	-22.0	-118.2
1986	-145.1	6.5	15.5	-24.1	-147.2
1987	-159.6	7.9	14.3	-23.3	-160.7
1988	-127.0	12.4	18.7	-25.3	-121.2
1989	-117.7	24.6	19.8	-26.2	-99.5
1990	-111.0	30.2	28.6	-26.7	-79.0
1991	-76.9	45.8	24.1	10.8	3.7
1992	-96.9	57.8	24.2	-33.1	-48.0
1993	-132.5	62.3	25.3	-37.1	-82.0
1994	-165.8	67.4	17.1	-36.8	-118.0
1995	-174.2	77.9	20.9	-34.1	-109.5
1996	-191.0	87.1	22.3	-38.6	-120.2
1997	-198.1	89.8	12.6	-45.2	-140.9
1998	-246.7	81.7	4.3	-53.2	-214.9
1999	-346.0	82.6	13.9	-50.6	-300.1
2000	-452.4	74.1	21.0	-58.8	-416.4
2001	-427.2	64.5	25.2	-51.9	-389.4
2002	-482.9	61.1	10.0	-64.0	-475.2
2003	-547.3	52.5	46.3	-71.2	-519.7
2004	-669.6	54.1	27.6	-81.6	-665.3
2005	-787.1	72.8	48.1	-88.5	-754.8
2006	-838.3	79.7	36.6	-89.6	-811.5

Source: U.S. Bureau of Economic Analysis, U.S. International Transactions. On the Internet at [http://www.bea.gov/bea/international/bp_web/list.cfm?anon=71].

- a. On a BoP basis.
- b. Includes travel, transportation, fees and royalties, insurance payments, other government and private services, and investment income.
- c. Income receipts on U.S. assets abroad minus income payments on foreign assets in the United States.
- d. International transfers of funds, such as private gifts, pension payments, and government grants for which there is no *quid pro quo*.
- e. The trade balance plus the service balance plus investment income balance plus net unilateral transfers, although conceptually equal to the current account balance, may differ slightly as a result of rounding.

Since the merchandise trade balance comprises the greater part of the current account, the two tend to track each other. Unlike the merchandise trade balance, however, the services account registered a \$79.7 billion surplus in 2006. Since Americans are such large investors in foreign economies, the United States traditionally also has a surplus in its investment income. The deficit in unilateral transfers (primarily dollars sent abroad by foreign workers and recent immigrants) at \$89.6 billion in 2006 continued to rise and has reached more than triple the level of the late 1980s.

Forecasts

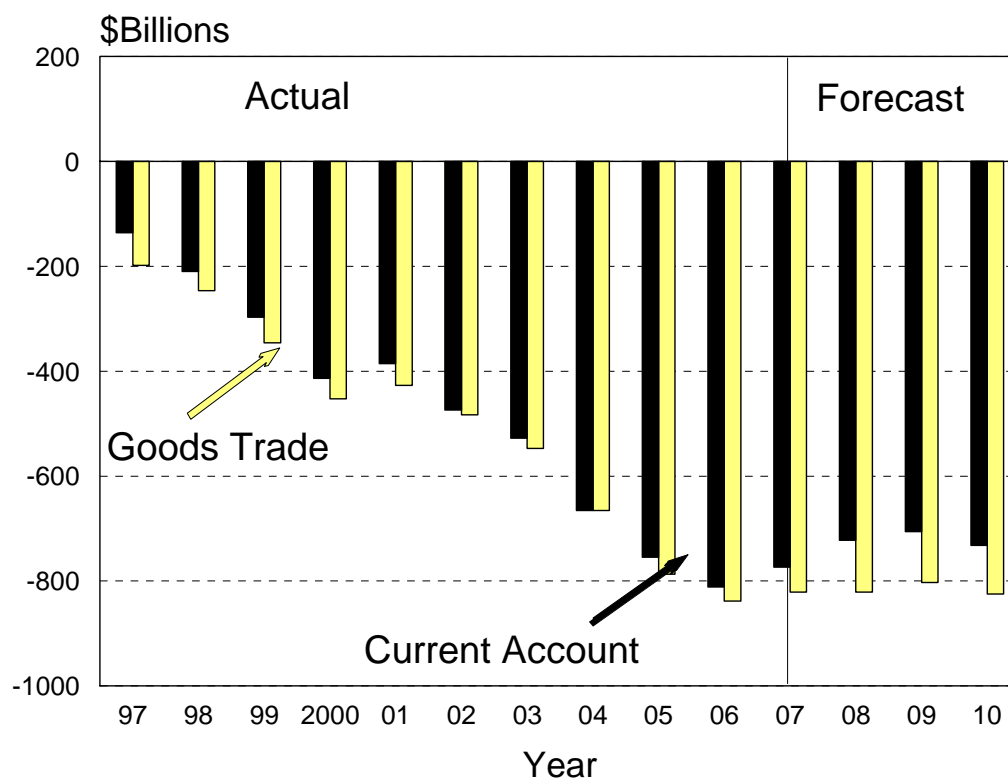
According to Global Insight, Inc., a leading U.S. economic forecasting firm, in 2007 the U.S. merchandise (goods) trade deficit is projected to decline to about \$820.5 billion on a balance of payments basis and to continue to decline in 2008 and 2009 before beginning to rise again in 2010 (see **Table 4** and **Figure 7**). The U.S. current account deficit likewise is projected to decline from the peak of \$811.5 billion in 2006 to \$774.1 billion in 2007. After additional dips in 2008 and 2009, the current account deficit is forecasted to increase again in 2010.

**Table 4. U.S. Merchandise and Current Account Trade,
2003 to 2010 (Forecast)**
(billions of U.S. dollars)

	2003	2004	2005	2006	Forecast			
					2007	2008	2009	2010
Merchandise Trade								
Exports								
Actual	713.4	807.5	894.6	1,023.1	—	—	—	—
Global Insight	—	—	—	—	1,150.5	1,290.2	1,419.7	1,527.9
Imports								
Actual	1260.7	1472.9	1,681.8	1,861.4	—	—	—	—
Global Insight	—	—	—	—	1,989.3	2,095.3	2,204.0	2,330.6
Trade Balance								
Actual	-547.3	-665.4	-787.1	-838.3	—	—	—	—
Global Insight	—	—	—	—	-820.5	-784.3	-764.1	-782.5
Services Trade Balance								
Actual	52.5	54.1	72.8	79.7	—	—	—	—
Global Insight	—	—	—	—	106.6	137.8	158.6	178.0
Current Account Balance								
Actual	-519.7	-665.3	-754.8	-811.5	—	—	—	—
Global Insight	—	—	—	—	-774.1	-686.6	-663.6	-689.7

Sources: U.S. Bureau of Economic Analysis and Global Insight (BoP basis).

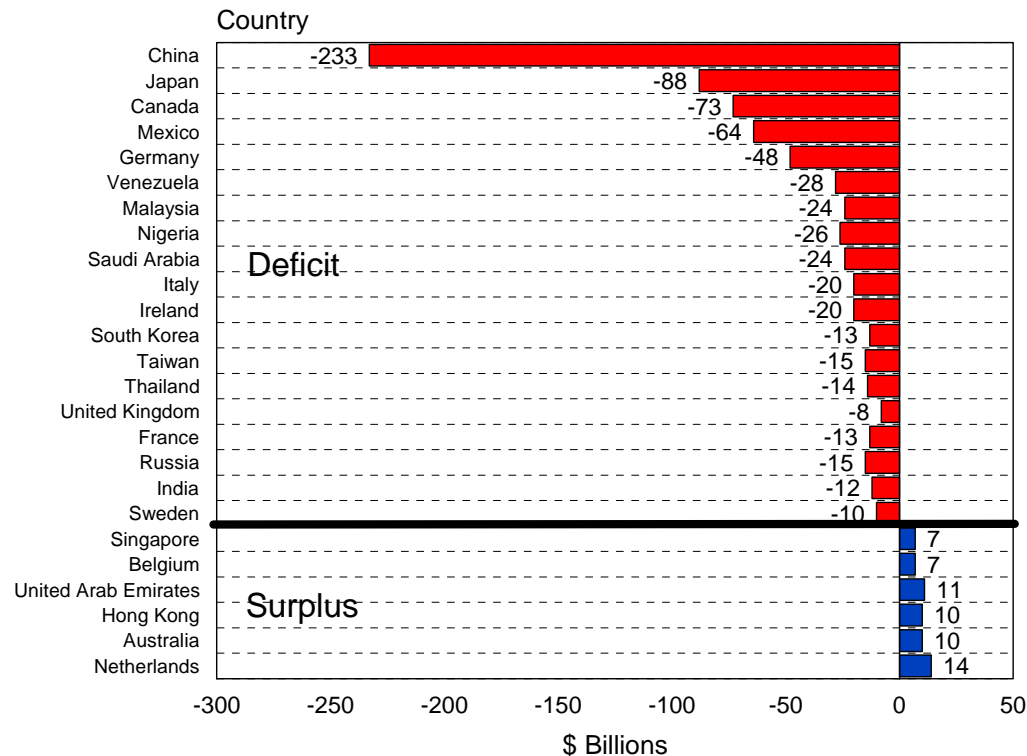
Figure 7. U.S. Merchandise Trade and Current Account Deficits, 1997-2009 (forecast, in current dollars)



Sources: U.S. Bureau of Economic Analysis and Global Insight (BoP basis).

U.S. Trade with Selected Nations

The overall U.S. merchandise trade balance consists of deficits or surpluses with each trading partner. Many economists view the overall figure as more significant than bilateral trade balances, since rising deficits with some nations are often offset by declining deficits or growing surpluses with others. Nonetheless, abnormally large or rapidly increasing trade deficits with particular countries are often viewed as indicators that underlying problems may exist with market access, the competitiveness of particular industries, currency misalignment, or macroeconomic adjustment. **Figure 8** and **Table 5** show U.S. trade balances with selected nations.

Figure 8. U.S. Merchandise Trade Balances with Selected Nations, 2006

Source: CRS with data from the U.S. Department of Commerce (Census basis).

Most of the U.S. trade deficit can be accounted for by trade with China, Japan, Canada, Mexico, and Germany. Trade with the oil exporting countries, particularly Venezuela, Nigeria, and Saudi Arabia, also is in deficit. U.S. trade surpluses occur in trade with the Netherlands, Australia, Hong Kong, and the United Arab Emirates.

The U.S. trade deficit with China has soared over the past decade. From \$32 billion in 1995 to \$100 billion in 2000 and \$233 billion in 2006, the negative net balance in trade with China has grown to account for 28% of the total U.S. trade deficit.¹⁶ The U.S. trade deficit with China exceeded that with Japan for the first time in the year 2000 and now is more than twice as large.

China claims that its trade is less imbalanced than U.S. data indicate. Chinese trade data differ from those of the United States primarily because of the treatment of Hong Kong as an entrepot. Since Hong Kong is a separate customs area from mainland China, Beijing counts Hong Kong as the destination for its exports sent there, even though the goods may be transshipped to other markets. For example, China would count a laptop computer that is assembled in Shanghai but shipped through Hong Kong before being exported to the United States as a sale to Hong Kong. By contrast, the United States and many of China's other trading partners

¹⁶ For details and policy discussion, see CRS Report RL31403, *China's Trade with the United States and the World*, by Thomas Lum and Dick K. Nanto, or CRS Report RL33536, *China-U.S. Trade Issues*, by Wayne M. Morrison.

count Chinese exports that are transshipped through Hong Kong as products from China not Hong Kong, including goods that contain Hong Kong components or involve final packaging in Hong Kong. The United States also counts Hong Kong as the destination of U.S. products sent there, even those that are then reexported to China. However, the PRC counts many of such reexported goods as U.S. exports to China. So by U.S. figures, U.S. exports to China tend to be understated, while by Chinese figures, Chinese exports to the U.S. tend to be understated. The net result is that China's reported trade surplus with the United States at \$144 billion in 2006 is about 60% of the reported U.S. deficit with China of \$233 billion.

Table 5. U.S. Merchandise Trade Balances with Selected Nations and Groups, 2002-2006
(millions of U.S. dollars, Census basis)

Country	2002	2003	2004	2005	2006
Total	-468,263	-532,350	-650,930	-767,477	-817,304
North America	-853,110	-92,319	-111,547	-128,230	-136,056
Canada	-48,165	-51,671	-66,480	-78,486	-71,782
Mexico	-37,146	-40,648	-45,067	-49,744	-64,274
Europe	-93,355	-105,603	-119,907	-132,269	-123,016
European Union 27	-86,377	-98,521	-109,999	-123,123	-117,216
United Kingdom	-7,540	-8,967	-10,274	-12,445	-8,103
Germany	-35,876	-39,281	-45,850	-50,567	-47,763
France	-9,224	-12,166	-10,342	-11,432	-12,822
Italy	-14,164	-14,854	-17,413	-19,485	-20,109
Netherlands	8,462	9,742	11,839	11,623	13,787
Russia	-4,473	-6,171	-8,930	-11,344	-15,127
Pacific Rim Countries	-310,170	331,869	405,298	-469,223	-513,662
Japan	-69,979	-66,032	-75,562	-82,519	-88,568
China	-103,065	-124,068	-161,938	-201,545	-232,589
Newly Industrialized Countries (NICs)	-22,080	-21,217	-21,883	-15,782	-11,783
Singapore	1,416	1,422	4,238	5,532	6,916
Hong Kong	3,266	4,669	6,513	7,459	9,829
Taiwan	-13,766	-14,152	-12,879	-12,757	-15,165
Republic of Korea	-12,996	-13,157	-19,755	-16,016	-13,362
South/Central American Countries	-17,952	-26,883	-37,183	-50,460	-44,706
Argentina	-1,602	-732	-357	-462	797
Brazil	-3,405	-6,699	-7,263	-9,064	-7,136
Colombia	-2,022	-2,629	-2,751	-3,387	-2,557
OPEC	-34,433	-51,064	-71,843	-92,867	-105,289
Venezuela	-10,664	-14,305	-20,153	-27,557	-28,131
Indonesia	-7,087	-6,999	-8,139	-8,960	-10,346
Saudi Arabia	-8,369	-13,473	-15,702	-20,380	-24,049
Nigeria	-4,888	-9,377	-14,694	-22,618	-25,630

Sources: United States Census Bureau, Foreign Trade Statistics. For other countries and further detail, see U.S. International Trade in Goods and Services Annual Revision for 2006, FT 900 (07-04), released June 8, 2007.

Note: Trade Balance equals Total Exports (f.a.s. value) minus General Imports (Customs value).

Table 6 lists the U.S. top deficit trading partners in merchandise trade, on a Census basis. In 2000, China overtook Japan as the top U.S. deficit trading partner. After, China, the next highest deficit trading partners are Japan, Canada, Mexico, Germany, and Venezuela.

Table 6. Top U.S. Merchandise Deficit Trading Partners, 2006
(millions of U.S. dollars)

Country	Balance	U.S. Exports	U.S. Imports
China	-232,589	55,186	287,774
Japan	-88,568	59,613	148,181
Canada	-71,782	230,656	302,438
Mexico	-64,274	133,979	198,253
Germany	-47,763	41,319	89,082
Venezuela	-28,132	9,002	37,134
Nigeria	-25,630	2,234	27,863
Malaysia	-23,989	12,544	36,533
Saudi Arabia	-24,050	7,640	31,689
Ireland	-20,010	8,516	28,526
Italy	-20,109	12,546	32,655
Taiwan	-15,165	23,047	38,212
Russia	-15,127	4,701	19,828
Algeria	-14,354	1,102	15,456
Thailand	-14,320	8,147	22,466
Korea	-13,362	32,442	45,804
France	-12,822	24,217	37,040
India	-11,775	10,056	21,831
Indonesia	-10,346	3,079	13,425
Sweden	-9,745	4,126	13,870
United Kingdom	-8,103	45,410	53,513
Brazil	-7,136	19,231	26,367
Austria	-5,318	2,986	8,304
Norway	-4,691	2,394	7,085
South Africa	-3,039	4,462	7,501
Chile	-2,779	6,786	9,565
Colombia	-2,557	6,709	9,266

Source: U.S. Department of Commerce. U.S. International Trade in Goods and Services Annual Revision for 2006, FT 900 (07-04), released June 8, 2007.

Note: Data are on a Census basis. Exports are valued f.a.s.; imports are valued Customs.

As shown in **Table 7**, in 2006, Canada again was America's largest total merchandise trading partner, but China passed Mexico to take second place in the ranking. Fourth was Japan, then Germany, and the United Kingdom. South Korea ranked seventh. **Table 7** lists the United States' top trading partners ranked by trade turnover. Trade with Canada accounts for 18% of total U.S. trade. Canada is the largest supplier of U.S. imports but China is rising fast and could surpass Canada in 2007. By far, Canada is the top purchaser of U.S. exports with Mexico second, Japan third, and China fourth.

Table 7. Top U.S. Trading Partners Ranked by Total Merchandise Trade in 2006

(millions of U.S. dollars)

Rank	Country	Total Trade	Balance	U.S. Exports	U.S. Imports
1	Canada	533,094	-71,782	230,656	302,438
2	China	342,960	-232,589	55,186	287,774
3	Mexico	332,232	-64,274	133,979	198,253
4	Japan	207,794	-88,568	59,613	148,181
5	Germany	130,401	-47,763	41,319	89,082
6	United Kingdom	98,923	-8,103	45,410	53,513
7	Korea	78,246	-13,362	32,442	45,804
8	Taiwan	61,259	-15,165	23,047	38,212
9	France	61,257	-12,822	24,217	37,040
10	Malaysia	49,077	-23,989	12,544	36,533
11	Venezuela	46,136	-28,132	9,002	37,134
12	Brazil	45,598	-7,136	19,231	26,367
13	Italy	45,201	-20,109	12,546	32,655
14	Saudi Arabia	39,329	-24,050	7,640	31,689
15	Ireland	37,042	-20,010	8,516	28,526
16	India	31,887	-11,775	10,056	21,831
17	Thailand	30,613	-14,320	8,147	22,466
18	Russia	24,529	-15,127	4,701	19,828
19	Sweden	17,996	-9,745	4,126	13,870
20	Algeria	16,558	-14,354	1,102	15,456
21	Indonesia	16,504	-10,346	3,079	13,425
22	Chile	16,351	-2,779	6,786	9,565
23	Colombia	15,975	-2,557	6,709	9,266
24	South Africa	11,963	-3,039	4,462	7,501
25	Austria	11,290	-5,318	2,986	8,304
26	Norway	9,479	-4,691	2,394	7,085

Source: U.S. Department of Commerce. *U.S. International Trade in Goods and Services Annual Revision for 2006*, FT 900 (07-04), released June 8, 2007.

Notes: Total trade = imports + exports. Data are on a Census basis. Exports are valued f.a.s.; imports are valued Customs.

Table 8 lists trade balances on goods, services, and income, net unilateral transfers and current account balances for selected U.S. trading partners. While trade in services, flows of income from investments, and remittances home by foreign workers are considerably smaller than merchandise flows, as the economy has become more globalized and service oriented, these components of the current account have become more important. In many cases, the bilateral current account balances are quite different from bilateral balances on merchandise trade only.

**Table 8. U.S. Current Account Balances With
Selected U.S. Trading Partners, 2006**
(millions of U.S. dollars)

Country	Merchandise Trade Balance ^a	Services Balance ^b	Investment Income Balance ^c	Net Unilateral Transfers ^d	Current Account Balance ^e
All Countries	-838.3	79.7	36.6	-89.6	-811.5
Mexico	-67.3	7.5	0.2	-11.1	-70.7
Canada	-75.1	15.5	18.5	0.4	-40.7
Asia and Pacific	-409.8	32.1	-38.9	-15.1	-431.7
China	-233.1	3.6	-26.7	-2.1	-258.2
Japan	-91.0	16.5	-35.7	1.6	-108.5
S. Korea	-14.4	4.2	-0.1	-0.6	-10.9
European Union	-120.2	14.3	1.7	-1.9	-106.2
Germany	-48.5	-7.0	-2.4	0	-57.9
United Kingdom	-9.0	9.8	-15.5	3.6	-11.1
Latin America	-112.6	12.2	18.9	-29.1	-110.6
Middle East	-36.1	-0.2	-2.5	-12.7	-51.5

Source: U.S. Bureau of Economic Analysis, International Transactions Account Data.

a. On a BoP basis.

b. Includes travel, transportation, fees and royalties, insurance payments, other government and private services, and investment income.

c. Income receipts on U.S. assets abroad minus income payments on foreign assets in the United States.

d. International transfers of funds, such as private gifts, pension payments, and government grants for which there is no *quid pro quo*.

e. The trade balance plus the service balance plus investment income balance plus net unilateral transfers, although equal to the current account balance, may differ as a result of rounding.

For example, since Japan has invested considerable amounts in securities, equities, and in factories in the United States, the United States ran a deficit of \$35.7 billion in investment income with that country in 2006. This more than offset the surplus of \$16.5 billion in trade in services with Japan. As a result, the current account deficit with Japan of \$108.5 billion in 2006 exceeded the bilateral merchandise trade deficit of \$91 billion. Likewise with China; the U.S. deficit on investment income of \$26.7 billion far overshadowed the U.S. surplus of \$3.6 billion in services.

In 2006, a different situation existed with the European Union and Canada. In 2006, the United States earned a \$1.7 billion surplus in investment income with the EU while the U.S. surplus in services came to \$14.3 billion. These two flows offset a merchandise deficit of \$120.2 billion to produce a U.S. current account deficit of \$106.2. From Canada the United States received \$18.5 billion in investment income plus a surplus in services trade of \$15.5 billion. Hence, the current account deficit with Canada at \$40.7 billion was lower than the \$75.1 billion merchandise trade deficit.

The rising deficit with many countries in investment income reflects the accumulating debt relative to the world of the United States. Inflows of capital to compensate for the U.S. trade deficit and low U.S. savings rate help to maintain the

value of the dollar, but interest paid and other income that accrues to that capital is often repatriated to the home countries. That means more capital must be invested in the United States or the United States must export more to compensate for the outflows of investment income. In 2006, the overall U.S. balance on investment income registered a surplus of \$36.6 billion. Imbalances in investment income with certain countries have been growing and could become a problem in the future.

Advanced Technology, Autos, and Oil

Table 9 shows U.S. trade in advanced technology products. This includes about 500 commodity codes representing products whose technology is from a recognized high technology field (e.g., biotechnology) or that represent the leading technology in a field. The United States long ran a surplus in these products, but that surplus dropped sharply in 2000 and turned into a deficit in 2002. In 2003, the deficit in U.S. trade in advanced technology products jumped 65% to \$27.4 billion, again rose in 2004 and in 2005, but declined in 2006 to \$38.1 billion. This does not necessarily imply the United States is losing the high technology race, since many of the high technology imports are from U.S. companies (particularly electronics manufacturers) who assemble the products overseas. However, this growing deficit may warrant closer policy scrutiny.

Table 9. U.S. Trade in Advanced Technology Products
(billions of U.S. dollars)

Year	U.S. Exports	U.S. Imports	Trade Balance
1990	93.4	59.3	34.1
1995	138.4	124.8	13.6
1996	154.9	130.4	24.5
1997	179.5	147.3	32.2
1998	186.4	156.8	29.6
1999	200.3	181.2	19.1
2000	227.4	222.1	5.3
2001	200.1	195.3	4.8
2002	178.6	195.2	-16.6
2003	180.2	207.0	-26.8
2004	201.4	238.3	-36.9
2005	216.1	259.7	-43.6
2006	252.7	290.8	-38.1

Source: U.S. Bureau of the Census. *U.S. International Trade in Goods and Services*. FT-900, issued monthly.

Notes: Includes about 500 of some 22,000 commodity classification codes that meet the following criteria: (1) contains products whose technology is from a recognized high technology field (e.g., biotechnology), (2) represent leading edge technology in that field, and (3) constitute a significant part of all items covered in the selected classification code. Data are on a BoP basis.

Table 10 provides data on trade in passenger cars with major automobile producing nations for 2006. This does not include foreign cars assembled in the United States. The United States incurs the largest deficits in this trade with Japan, Mexico, Germany, Canada, and South Korea.¹⁷

**Table 10. U.S. Trade in Motor Vehicles and Parts by
Selected Countries, 2006**
(millions of U.S. dollars)

Trading Partner	U.S. Exports	U.S. Imports	Trade Balance
Total World	109,177	254,167	-144,990
Japan	2,291	60,212	-57,921
Mexico	17,065	48,976	-31,911
Germany	6,818	26,594	-19,776
Canada	57,079	68,982	-11,903
Korea	750	12,369	-11,619
United Kingdom	1,983	6,788	-4,805

Source: U.S. Bureau of the Census, *U.S. International Trade in Goods and Services*, FT-900, issued monthly.

Table 11 shows imports of crude petroleum by major country source. In 2006, the United States imported \$225 billion in crude oil or 13% of all imports. Roughly half comes from the Organization of the Petroleum Exporting Countries (OPEC) with Saudi Arabia, Venezuela, and Nigeria the predominant suppliers. Imports from Iraq are recovering with \$11 billion worth in 2006. Over 40% of U.S. petroleum imports come from non-OPEC sources, primarily Canada and Mexico.¹⁸

¹⁷ For information on the automobile industry, see CRS Report RL32883, *U.S. Automotive Industry: Recent History and Issues*, by Stephen Cooney and Brent D. Yacobucci.

¹⁸ For policy discussion, see CRS Report RS22204, *U.S. Trade Deficit and the Impact of Rising Oil Prices*, by James K. Jackson.

Table 11. U.S. Imports of Crude Oil by Selected Countries, 2006
(quantity and customs value)

Country	Quantity (Thousand barrels)	Customs Value (\$million)
Total World	3,873,914	225,156
OPEC Total	2,098,249	126,171
Saudi Arabia	514,424	30,218
Venezuela	521,207	28,752
Nigeria	391,854	26,042
Algeria	186,780	12,386
Angola	181,674	11,295
Iraq	194,424	11,147
Kuwait	67,539	3,737
Other OPEC	40,345	2,595
Non-OPEC Total	1,775,665	98,985
Canada	626,054	33,031
Mexico	566,566	30,595
Ecuador	97,911	5,344
Colombia	56,728	3,456
Russia	45,449	2,985
United Kingdom	44,380	2,919
Congo	43,779	2,830
Brazil	48,045	2,809
Norway	44,071	2,506
Other Non-OPEC	163,092	12,510

Sources: U.S. Census Bureau, *U.S. International Trade in Goods and Services*, FT-900, issued monthly, and World Trade Atlas, using Harmonized Schedule (HS) 270900 for crude oil.

Some Common Perceptions

This section of the report addresses a few common perceptions about trade that can be validated by data.

Outsourcing

A common perception is that an increasing amount of U.S. imports are actually goods manufactured overseas by U.S. affiliated companies. U.S. manufacturers have moved production abroad in search of lower production costs or other economic advantages and are sending their product back to the American market.

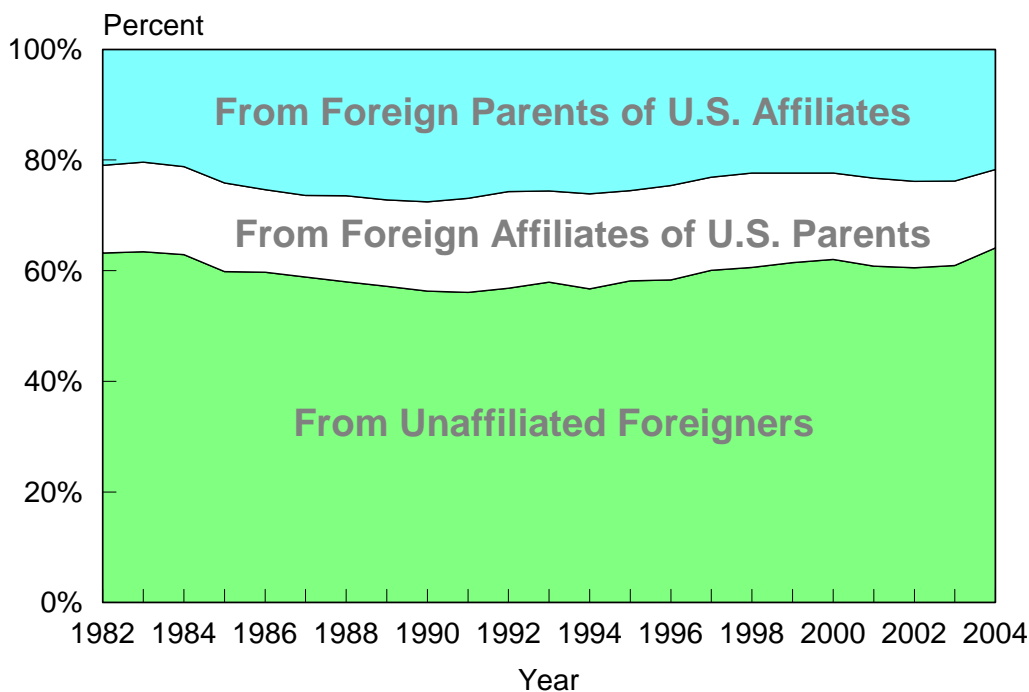
Figure 9 shows the percentage of U.S. imported products by affiliation of the foreign producer. The total value of such imports from foreign affiliates of U.S. parent companies rose from \$39.3 billion in 1982 to \$209.1 billion in 2004, but the

percentage of total U.S. imports accounted for by these imports has been fairly constant at around 15%. In 1982, such imports accounted for 15.9% of total imports, while in 2004 they accounted for 14.2% of the total. These are products such as American branded computers assembled in China in a subsidiary affiliated with a U.S. company.

The share of imports from foreign parent companies with affiliates in the United States has been rising somewhat — from 21.0% in 1982 to 21.7% in 2004. These reflect the growing foreign direct investment in the United States and include imports such as transmissions from a Japanese automaker for use in its assembly plant located in the United States.

Imports from unaffiliated foreigners accounts for about 60% of all imported goods. Their share has risen somewhat from 63.2% in 1982 to 64.1% in 2004. 2004 data is the latest currently available.

Figure 9. Shares of U.S. Imports of Goods by Affiliation of Foreign Producer, 1998-2004



Source: CRS with Data from U.S. Bureau of Economic Analysis.

Note: 2004 data is latest available as of 11/20/07.

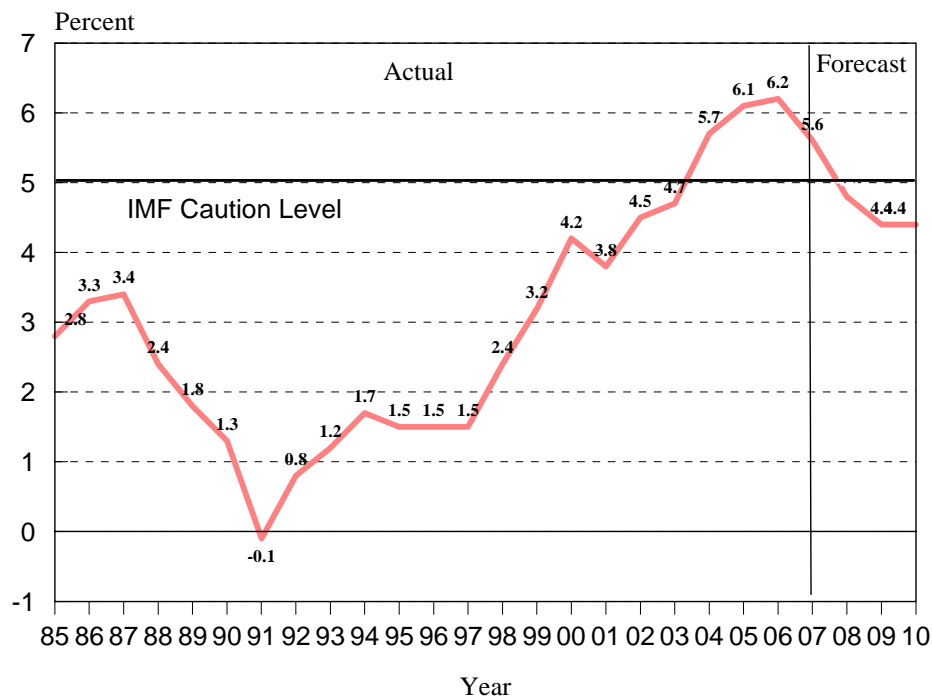
Is the Trade Deficit at a Dangerous Level?

The International Monetary Fund has used its experience with currency and exchange rate crises to say that caution should be exercised when a nation's current account deficit reaches a level of 5% of gross domestic product. At this level, nations have difficulty borrowing to finance imports and the nation's exchange rate may come under severe downward pressure. The United States is a special case, since the dollar is a secondary medium of exchange (one can use dollars in many

foreign countries without exchanging them for local currency) and dollars are used extensively as an official reserve currency by national banks. Still, the IMF has been warning that the size of the U.S. current account deficit could cause a large depreciation of the dollar and disrupt financial markets.

Figure 10 shows the U.S. current account balance as a percent of nominal U.S. gross domestic product (GDP). It grew in magnitude from near zero in 1980 to 3.4% in 1987, dropped into negative 0.1% in 1991 and rose to 6.2% in 2006 (exceeding the 5% level considered to warrant caution by the International Monetary Fund). The current account balance-GDP ratio is expected to remain above the IMF caution level for 2007. However, beginning in 2008 through 2010, it is predicted to decline to below the IMF caution level.

Figure 10. The U.S. Current Account Deficit as a Percent of Gross Domestic Product, 1985-2008 (forecast)



Sources: Data from U.S. Department of Commerce. Forecasts by Global Insight, Inc.

Is Trade with China Merely Replacing That with Southeast Asia?

Some observers claim that the rising U.S. imports from China are merely displacing those from other East Asian nations. Labor intensive industries, such as apparel, shoes, and consumer electronics, that produce for export to the United States and other industrialized nations are simply moving to China from Southeast Asian nations, including South Korea, and Taiwan. The overall level of imports from Asia is not changing. Its composition is just shifting toward China.

For specific industries, the shift in imports from traditional Asian exporting nations to China is clear. In woven apparel (HS 62), for example, in 1990, Hong Kong, South Korea, and Taiwan accounted for 33.4% of U.S. imports as compared to China with a 14.7% share. By 2006, China accounted for 31.3% of such imports, as compared to 4.9% for Hong Kong, South Korea, and Taiwan combined.

In terms of overall imports, however, U.S. imports from Hong Kong, Taiwan, and South Korea rose from \$50.6 billion (10.2% of total U.S. imports) in 1990 to \$92.0 billion (5.0% of total) in 2006, while imports from China rose from \$15.2 billion (3.3% of total) in 1990 to \$287.8 billion (15.5% of total) in 2006.¹⁹ Clearly, the share of U.S. imports from Hong Kong, Taiwan, and South Korea has been falling, while the share of imports from China is rising. The value of U.S. imports from both, however, continues to rise, while the value of those from China is rising faster.

The large U.S. trade deficit with China, moreover, is not just a transfer of the deficit from other Asian nations to China. The U.S. trade deficit with Hong Kong, Taiwan, and South Korea has gone from \$17.9 billion (17.5% of the total U.S. deficit) in 1990 to \$18.7 billion (2.3% of the total) in 2006. U.S. trade with Hong Kong actually went from a deficit to a surplus. The U.S. trade deficit with China, meanwhile, went from \$41.1 billion (10.2% of the total U.S. trade deficit) in 1990 to \$232.6 billion (28.5% of the total) in 2006. What actually is happening is that the U.S. trade deficit is rising with most regions of the world, particularly with Asia, including China, and it also is rising with Canada and Mexico, the European Union, and with oil exporting countries.

International Trade Statistics Web Resources

Listed below are a list of resources available online for international trade statistics.

The single most authoritative, comprehensive, and frequently-published trade data statistical source is the monthly “FT900”. Its actual title is *U.S. International Trade in Goods and Services*. The FT-900 is issued monthly by the U.S. Census Bureau and the U.S. Bureau of Economic Analysis. It provides information on the U.S. trade in goods and services (balance, exports, and imports) in specific commodities and end-use categories and with selected countries. The report also provides information on trade in advanced technology, petroleum, and motor vehicle products. The report is available from the U.S. Bureau of Economic Analysis at [<http://www.bea.gov/newsreleases/rels.htm>]. Under “International” click on latest news release.

Information on trade in specific commodities, with particular regions, or for different time periods also can be obtained from the U.S. International Trade Commission at [<http://dataweb.usitc.gov/>].

¹⁹ The numbers are comparable for all Asian countries.

Historical and current U.S. exchange rate data are available from the Federal Reserve Bank of St. Louis at [<http://research.stlouisfed.org/fred2/>].

Information on foreign country holdings of U.S. Treasury securities are available at [<http://www.treasury.gov/tic/>].